

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

I. D. # 5461

RESOLUTION G-3387

DATE: April 13, 2006

R E S O L U T I O N

Resolution G-3387. San Diego Gas & Electric Company (SDG&E) requests Commission approval of two natural gas storage agreements between itself and Southern California Gas Company (SoCalGas), an affiliate under Sempra Energy, entitled Master Services Contract, Schedule I, Transaction Based Storage Service, dated February 3, 2006. SDG&E's request is approved.

By Advice Letter (AL) 1595-G, filed February 8, 2006.

SUMMARY

In AL 1595-G, SDG&E proposes two storage contracts with its affiliate, SoCalGas, that would provide it with 7,822,461 decatherms (Dth) of storage inventory capacity for the time period April 1, 2006 through March 31, 2007 and 9,000,000 Dth of storage inventory for the time period April 1, 2007 through March 31, 2008. Both contracts specify a price of \$1.35000/Dth Unit Reservation charges for inventory, \$39.00 per Dth/day for injection capacity, and \$11.60 per Dth/day for withdrawal capacity. This resolution approves SDG&E's proposal. Key elements of this Resolution are summarized below:

1. These storage contracts will provide firm storage service for SDG&E's core customers beginning April 1, 2006 through March 31, 2008.
2. To the extent that there is a price differential between the rates paid by SDG&E in these contracts and the rates paid by SoCalGas' own core customers, we require that the differential be booked to a SoCalGas memorandum account for further review in the next SoCalGas/SDG&E Biennial Cost Allocation Proceeding (BCAP).
3. In its protest of AL1595-G, the Division of Ratepayer Advocates (DRA) raised a concern that the unit price of SDG&E's proposed transaction is higher than that which SoCalGas' core customers pay.
4. DRA requests that SoCalGas record in a memorandum account the amount SDG&E pays which exceeds that paid by SoCalGas' core ratepayers. DRA's protest is granted in part.

BACKGROUND

In the Phase 1 decision, (D.) 04-09-022, in Rulemaking (R.) 04-01-025, the Commission established procedures under which natural gas utilities could enter into contracts for firm interstate pipeline capacity and firm storage capacity contracts with affiliates by either the standard advice letter process or by application.

Under the provisions of D.04-09-022, SDG&E filed AL 1595-G on February 8, 2006, requesting approval of two natural gas storage agreements between itself and SoCalGas, an affiliate under Sempra Energy, entitled Master Services Contracts, Schedule I, Transaction Based Storage Service, dated February 3, 2006.

A storage contract should be in place by April 1, 2006 in order to allow SDG&E to begin storing gas during the spring injection season, when demand for natural gas demand dips from winter seasonal highs and it is available economically for storage.

Storage agreements have traditionally been reviewed in the SoCalGas/SDG&E Biennial Cost Allocation Proceeding (BCAP). During the past 6 years, the SoCalGas/SDG&E BCAP proceeding has been significantly delayed for various reasons. The last BCAP decision was issued in 2000. Prior to last year, SDG&E has entered into a one-year storage contract with SoCalGas for an amount of inventory, withdrawal, and injection capacity that has been either mutually agreed upon with DRA, or at least not opposed by DRA. These storage contracts were entered into at market rates, following a similar SoCalGas auction process that SDG&E pursued for the proposed contract.

On January 7, 2005, SDG&E filed an advice letter for the first time requesting Commission approval pursuant to D. 04-09-022 for a Master Services Contract for Transaction Based Storage Service with SoCalGas. Advice Letter 1499-G was protested on several issues, one of which was the fact that the rates SDG&E's core customers were to pay were higher than those SoCalGas charged its core customers. Commission Resolution G-3378 required SoCalGas to record SDG&E costs of storage which were higher than those charged SoCalGas core customers. This amount was to be recorded in a memo account to be reviewed in the next BCAP. Subsequent to Commission approval of Resolution G-3378, SDG&E realized that its storage rate calculations were in error and that the rate SDG&E core customers would pay was actually lower than that paid by SoCalGas core customers. SoCalGas did not establish a memo account.

NOTICE

Notice of SDG&E AL 1595-G was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

SDG&E AL 1595-G was timely protested by DRA.

DRA protests AL 1595-G with regard to the price of the storage capacity.

1. On February 28, 2006, DRA filed a limited protest of AL 1595-G on the basis that the rate SDG&E pays for storage services set forth in the contract exceeds the rate paid by SoCalGas' core customers for storage.
2. DRA recommends that the tracking of storage costs in the memo account that was authorized in Resolution G-3378 continue to apply and be maintained in the context of SDG&E's 2006 and 2007 Storage Contracts filed for approval in Advice Letter 1595-G.
3. DRA further recommends that the discussion and findings of fact (FOF #'s 5, 6, 8, and 10) and ordering paragraph (OP #3) set forth within Commission Resolution G-3378 also apply to the SDG&E 2006 and 2007 storage contract.

SDG&E RESPONSE TO PROTEST

SDG&E responded that it does not object to DRA's recommendation to record the cost of storage under the Agreements that are greater than SoCalGas' scaled long-run marginal cost rates.

On March 7, 2006, SDG&E responded to DRA's limited protest to AL 1595-G with regard to recording certain storage costs which apply to the 2006 and 2007 Storage Contracts between SDG&E and SoCalGas. SDG&E pointed out that SoCalGas filed Advice Letter 3603 on March 1, 2006, which proposes to establish the SDG&E Storage Memorandum Account. The memo account would record the cost of storage differential associated with storage rates under the Agreements that are greater than SoCalGas' scaled Long-Run Marginal Cost rates in accordance with Resolution G-3378.

DISCUSSION

The Commission has reviewed SDG&E AL 1595-G, the protest of DRA and the response of SDG&E.

SDG&E filed its proposal for storage contracts in AL 1595-G pursuant to D. 04-09-022 which states that “proposed changes to core storage may be addressed through the standard advice letter procedure.”

In Resolution G-3378, the Commission ordered SoCalGas to establish a memo account to record the differential associated with SDG&E storage rates which are greater than the SoCalGas’ storage rates in the storage contracts filed with SDG&E AL 1499-G. Subsequent to the Commission’s approval of Resolution G-3378, SDG&E discovered that its storage rates were actually lower than those of SoCalGas’ core customers. Due to this development, SoCalGas did not establish a memorandum account to track the rate differential SDG&E paid over SoCalGas’ core customers because there was none.

In its protest to AL 1595-G dated February 28, 2006, DRA recommends that the provisions and discussion regarding the tracking of storage costs in a memo account that was established in Resolution G-3378 continue to apply and be maintained in the context of SDG&E’s 2006 and 2007 Storage Contracts. DRA is apparently unaware that SoCalGas never established the memo account because SDG&E’s storage rates were never higher than those of SoCalGas during the term of the contract filed in AL 1499-G.

On March 1, 2006, SoCalGas filed Advice Letter 3603, which requests approval to establish the SDG&E Storage Memorandum Account (SDGESMA) to record the costs of storage charged to SDG&E for the two-year period beginning April 1, 2006 to the extent that prices under the storage contract are above the scaled long-run marginal cost (LRMC) rates that SoCalGas charges for its own core customers. If Advice Letter 3603 is approved, and SoCalGas establishes the memo account, it will resolve DRA’s protest to SDG&E AL 1595-G regarding the memo account.

The memo account ordered in Resolution G-3378 was, in essence, a one-way memo account. The cost differential between SDG&E and SoCalGas storage rates was only to be recorded when SDG&E’s storage rates exceed those of SoCalGas. To remedy what could possibly be considered an inequity when the disposition of the balances in this account is resolved in the next BCAP, we will require SoCalGas to establish a memo account which records any cost differential between SDG&E and SoCalGas’ core customers’ storage rates.

In its protest, DRA recommended that the pertinent discussion contained in Resolution G-3378, findings of Fact (FOF 5, 6, 8, and 10) and ordering paragraph (OP #3) also apply to the SDG&E 2006-2007 storage contracts. Although we will include the intent of Findings of Fact 5 and 6 from Resolution G-3378 into this Resolution G-3387, **we will refrain from commenting on whether the two utilities' storage rates should be equal or not. We will leave the determination of this issue to be decided by the Commission in the next SoCalGas / SDG&E BCAP which is the traditional proceeding for resolution of storage issues.**

COMMENTS

Public Utilities Code section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

All parties in the proceeding have stipulated to reduce the 30-day waiting period required by PU Code section 311(g)(1). Accordingly, this matter will be placed on the Commission's agenda for April 13, 2006. By stipulation of all parties, comments shall be filed no later than March 30, 2006; reply comments shall be filed no later than April 6, 2006.

FINDINGS

1. With AL 1595-G, SDG&E requests approval of two storage agreements with SoCalGas.
2. DRA filed a limited protest on February 28, 2006 requesting that SoCalGas record any storage differential paid by SDG&E over that paid by SoCalGas' core customers and that certain findings of fact contained in Resolution G-3378 be brought forward to the current resolution.
3. SoCalGas did not establish the memo account discussed in Resolution G-3378 because SDG&E's storage rates for the storage season beginning April 1, 2005 did not exceed those of SoCalGas' core customers.
4. SoCalGas filed AL 3603 on March 1, 2006, requesting authority to establish the SDGESMA to record the costs of storage charged to SDG&E for the two-year period beginning April 1, 2006 to the extent that prices under the storage contract are above the scaled long-run marginal cost (LRMC) rates that SoCalGas charges its own core customers.
5. DRA's limited protest is partially granted.
6. SoCalGas is required to record in a memorandum account any cost differential between SDG&E's storage rates and those of SoCalGas.
7. Resolution of the cost differential in this memorandum account will be determined in the next SoCalGas/SDG&E BCAP Proceeding, where storage rate issues are normally discussed.

THEREFORE IT IS ORDERED THAT:

1. The request of San Diego Gas & Electric Company (SDG&E) for Commission approval of two natural gas storage agreements between itself and Southern California Gas Company (SoCalGas), entitled Master Services Contract, Schedule I, Transaction Based Storage Service, dated February 3, 2006, is approved.
2. SoCalGas shall establish a memorandum account to track any cost differential between the storage rates of SDG&E and those paid by SoCalGas' core customers.
3. Resolution of the cost differential in this memorandum account will be determined in the next SoCalGas/SDG&E BCAP Proceeding.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 13, 2006.

STEVE LARSON
Executive Director

March 16, 2006

To: Parties to San Diego Gas & Electric Company - Advice Letter 1595-G

Enclosed is draft Resolution G-3387 of the Energy Division. It will be on the agenda at the Commission's April 13, 2006 meeting. The Commission may then vote on this Resolution or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution. An original and two copies of the comments, with a certificate of service, should be submitted to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Fax: 415.703.2200

A copy of the comments should be submitted in electronic format to:

Joyce Alfton
California Public Utilities Commission
Energy Division
505 Van Ness Avenue
San Francisco, CA 94102

Email: alf@cpuc.ca.gov

Resolution G-3387

16 March 2006

Any comments on the draft Resolution must be received by the Energy Division by March 30, 2006. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to the draft Resolution, 2) all Commissioners, and 3) the Director of the Energy Division, on the same date that the comments are submitted to the Energy Division.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities, and an appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft Resolution may be filed (i.e., received by the Energy Division) by April 6, 2006. Replies shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length, and shall be filed and served as set forth above for comments.

Late submitted comments or replies will not be considered.

Richard Myers
California Public Utilities Commission
Energy Division
Project Supervisor Gas
505 Van Ness Avenue
San Francisco, CA 94102

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of draft Resolution G-3387 on all parties in these filings or their attorneys as shown on the attached list.

Dated March 16, 2006 at San Francisco, California.

Jerry Royer

Notice

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002, San Francisco, CA 94102 of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

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